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C O N F I D E N T I A L SECTION 01 OF 02 TASHKENT 000438

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SUBJECT: RUSSIAN PRIME MINISTER DISCUSSES ECONOMIC ISSUES
WITH THE GOU

Classified By: Amb. Jon R. Purnell for reasons 1.4 (b) and (d).

Summary

¶1. (C) Russian Prime Minister Mikhail Fradkov's visit to Tashkent focused primarily on economic issues, including difficulties faced by Russian firms doing business here. The two sides also discussed the production of Russian aircraft in Uzbekistan. Russia and Uzbekistan did agree to establish a joint venture, with a Russian controlling interest, to repair Russian military helicopters. The two sides are close to signing several bilateral agreements intended to regularize the treatment of Uzbek labor migrants in Russia. The Russian Ambassador said that Fradkov's visit was the first of his tenure focused on concrete results rather than broader political symbolism. The visit also demonstrated that Uzbekistan's relationship with Russia is not as smooth as the Uzbeks would like to portray. End summary.

¶2. (C) Russian Ambassador Farit Mukhametshin gave the Ambassador a readout of Russian Prime Minister Mikhail Fradkov's March 6-7 working visit to Tashkent. The visit focused primarily on bilateral economic issues, although some discussion of the Eurasian Economic Community (EurasEC) and regional security also took place. The Russian Ambassador said that this was the first high-level Russian delegation in his tenure to come to Tashkent with a focus on making concrete progress rather than signing agreements and other symbolic gestures. During his one working day in town, Fradkov met with President Islam Karimov and Prime Minister Shavkat Mirziyayev.

Business Climate

¶3. (C) Mukhametshin said that much of Fradkov's visit focused on the business climate. The Uzbeks, he said, were critical of the slow pace of Russian investment, particularly in the oil and gas sector. However, the Russians reminded them that Gazprom had received its license only in December and that it was unrealistic to expect that \$200 million in investment would take place in just two months. (Note: It took almost a year for the Uzbeks to grant Gazprom's license for gas exploration. End note.)

¶4. (C) The Russians pressed the Uzbeks to make it easier for Russian businesses to work here, Mukhametshin said. Currency conversion in particular is a problem, he continued, giving

the example of Russian telecommunications company Beeline, which has been unable since October to convert \$20 million in Uzbek soum to hard currency, and as a result has been unable to import equipment needed to upgrade its cellular network. Mukhametshin agreed with the Ambassador's comment that Uzbek actions against Newmont Mining had undermined Uzbekistan's reputation as a good place to do business, and added that COSCOM's recent problems had not helped either. (Comment: Very interesting comment, considering reports that U.S.-owned COSCOM is being pressured to sell out to a Russian telecommunications company. End comment.) The Russian Ambassador said that he thought it would be important to work on improving the business climate in Uzbekistan through the G-8.

Airplane Manufacturing

15. (C) Mukhametshin confirmed press reports that the two sides also had discussed production at the Chkalov Aircraft Factory (a.k.a. TAP0iCh) on the outskirts of Tashkent. The factory is a relic of Soviet times, the Russian Ambassador said, and even today relies on factories in Russia for its supply of parts, which it then assembles into completed airframes. The Uzbeks want to preserve the past with Chkalov operating independently and providing jobs for a grossly oversized work force (Note: During Soviet times, the factory reportedly employed upwards of 13,000 workers. Current employees number about 5,000, most of whom have relatively little to do as the factory is idle much of the time. End note.) Mukhametshin did not address press reports that Russia has decided to shift future production of IL-76 cargo planes away from Tashkent. However, he said that the Russian

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delegation told the Uzbeks that the Chkalov factory currently is obsolete and needs to be integrated into the wider (presumably Russian) world of aircraft production if it is to survive.

16. (C) The Russian Ambassador also confirmed that Russia and Uzbekistan agreed to form a joint venture to repair Russian military helicopters on the basis of an existing helicopter repair facility in Chirchik. Russia will have a controlling interest in the joint venture (51 percent to the Uzbeks' 49 percent). Mukhametshin told the Ambassador that the Russians had insisted on a controlling interest because they feared that nothing would be done if left to the Uzbeks.

Immigration Issues

17. (C) Russia and Uzbekistan are close to signing three bilateral agreements which, taken together, should help to regulate the flow of migrant Uzbek labor. The agreements will deal with issues surrounding the migrants' legal status, payment of taxes, and receipt of social benefits while in Russia. Mukhametshin said that he had been trying to get the Government of Uzbekistan to engage on these issues for over two years; however, it was unwilling to do so until recently when changes were made at senior levels of the Ministry of Labor. Now, progress is finally being made.

Comment

18. (C) Mukhametshin's description of Uzbek officials saying repeatedly that all is well and that there are no problems in the Russian-Uzbek relationship sounds familiar. Fradkov's visit shows that the Uzbek-Russian relationship is not as smooth as the Uzbeks like to portray, and that the Russians have many of the same problems as other countries in working here. The Russians know that the business environment here

is bad, and that it is in our common interest to see what can be done to improve it. An agreement to establish a framework for dealing with the large number of Uzbek labor migrants working in Russia should be a step forward, as it presumably would convey some sort of official status, which should help to reduce abuses.

PURNELL